

## Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-25 ADP-00 EB-11 XMB-07 AID-20 CIAE-00

COME-00 FRB-02 INR-09 NSAE-00 RSC-01 TRSE-00 OPIC-12

CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01 DODE-00 PM-09

H-02 L-03 NSC-10 PA-03 PRS-01 SS-14 USIA-12 STR-08

CEA-02 RSR-01 /164 W

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DEPARTMENT PASS TREASURY

E. O. 11652: N/ A DECLAS UPON RECEIPT

TAGS: EFIN, GW

SUBJECT: REPORT TO THE CONGRESS ON U. S. EMERGENCY LOAN

GUARANTEE LEGISLATION: GERMAN EXPERIENCE

REF: STATE 044657; BONN A-14, DATED JAN 5, 1973.

1. BEGIN SUMMARY. ALTHOUGH THERE IS NO SPECIAL LEGISLATION IN THE FRG FULLY COMPARABLE TO THE EMERGENCY LOAN GUARANTEE ACT, THE PRACTICE OF GOVERNMENTAL GUARANTEES OF PRIVATE BANK CREDIT EXTENDED TO BUSINESS ENTERPRISES HAS BEEN COMMON AT LEAST SINCE 1949. GUARANTEES ARE NOT LIMITED TO EMERGENCY SITUATIONS AND ARE, IN FACT, FAR MORE COMMON FOR A VARIETY OF INVESTMENT- TYPE LOANS; IN PARTICULAR FOR THOSE WHICH FULFILL THE REQUIREMENT THAT THEY PROMOTE INDUSTRY, TRADE, AND THE FRG ECONOMY IN GENERAL. AN OVERVIEW OF EMERGENCY PROVISIONS IS PROVIDED BELOW ALONG WITH A BRIEF SKETCH OF THE WIDER PROGRAM FOR BETTER PERSPECTIVE. ON THE WHOLE THESE GUARANTEE PROGRAMS APPEAR TO HAVE BEEN RELATIVELY SUCCESSFUL. END SUMMARY.

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2. THE FEDERAL BUDGET REGULARLY ESTABLISHES MAXIMA UP TO WHICH THE GOVERNMENT MAY GUARANTEE CREDIT EXTENDED TO PRIVATE

BUSINESS UNDER VARIOUS SCHEMES. ALTHOUGH THE FINANCE MINISTRY MUST AGREE TO SUCH GUARANTEE, AFTER THED 9, REF A) WITH FOLLOWING RESULTS:

A. INCREASED USE OF EDA - DOD ADVISES THAT GOI REQUESTS FOR EDA ARE ALREADY RECEIVING HIGHEST PRIORITY. HOWEVER, SINCE MOST EDA ITEMS REQUIRE CONSIDERABLE RECONDITIONING MUCH OF IT IS NOT ACCEPTABLE TO GOI. SUGGEST DLG SUBMIT THROUGH MILITARY CHANNELS ( INFO TO STATE) CASES WHERE INDONESIAN PROGRAM DOES NOT RECEIVE AT LEAST REASONABLE SHARE OF EQUIPMENT DLG HAS REQUESTED FROM MAPEX/ MIMEX/ SIMEX LISTINGS. DOD WOULD ALSO APPRECIATE EXPLANATION AS TO WHAT IS MEANT BY TERM " USAGE GUIDELINES." AS FAR AS DOD AWARE THERE IS NO RESTRICTION ON USAGE EXCEPT FOR UNDERSTANDABLE REQUIREMENT THAT EDA MUST BE USED FOR APPROVED PROJECTS.

B. POSSIBLE INDONESIAN PURCHASE OF U. S. EQUIPMENT AT REDUCED PRICES - STATE/ DOD ARE WILLING EXPLORE THIS REQUEST SYMPATHETICALLY. HOWEVER, UNDER LAW U. S. MUST CHARGE REASONABLE AMOUNTS FOR ANY EQUIPMENT TO BE DISPOSED BY SALE. SUCH EQUIPMENT WOULD NORMALLY REQUIRE CONSIDERABLE OVERHAUL ENTAILING EITHER SIGNIFICANT CHARGES TO MAP OR EXTRA COST TO GOI. BEST COURSE WOULD BE FOR MISSION SUBMIT ITEMS FOR POSSIBLE PURCHASE IN CONNECTION WITH APPROVED PROJECTS SO THAT DOD CAN EXAMINE WHETHER THERE ARE ANY ITEMS AVAILABLE FOR SALE AND WHETHER THEY WOULD BE SUITABLE FOR INDONESIAN PROGRAM.

C. POSSIBLE USE OF FMS CREDITS OR GUARANTEES - ALL FMS CREDIT FOR FY 1973 HAS BEEN PROGRAMMED. IN ANY EVENT,  
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DEPT IS STRONGLY OPPOSED TO INITIATING FMS CREDIT PROGRAM FOR INDONESIA LARGELY FOR REASONS CITED PARA 8, REF A.

D. NAVAL SHIPS - DEPT AND DOD WOULD BE WILLING IN PRINCIPLE TO CONSIDER ADDITIONAL DESTROYER TYPE VESSELS FOR INDONESIAN NAVY. HOWEVER, AS ADMIRAL ZUMWALT ADVISED ADMIRAL SUDOMO ( PAR 4, REF C), NO ADDITIONAL DES ARE CURRENTLY AVAILABLE. ( FYI: THE THREE REMAINING DES OF THE CLAUD JONES CLASS ARE OPERATING UNDER A SPECIAL MISSION CATEGORY AND WILL NOT BE AVAILABLE UNTIL 1 JULY 1974 AT THE EARLIEST. END FYI) IT IS POSSIBLE THAT SOME STEAM- DRIVEN DES OR DDS MIGHT BECOME AVAILABLE. WOULD APPRECIATE EMBASSY ASSESSMENT GOI INTEREST IN ACQUIRING STEAM POWERED VESSELS. MAJOR DRAWBACKS TO PROVIDING ADDITIONAL STEAM VESSELS ARE SERIOUS MAINTENANCE PROBLEMS DUE TO THE AGE AND CONDITION OF THE SHIPS AND THE HIGH COST OF MAP FOR SUPPORT.

E. VEHICLES FOR POLICE - WE CONCUR IN PROPOSAL TO PROVIDE VEHICLES FOR POLICE. THESE COULD BE PROVIDED FROM EDA BUT WOULD PROBABLY REQUIRE SOME REHAB. ONCE MAINTENANCE FACILITY BANDUNG BECOMES OPERATIONAL, IT MIGHT BE POSSIBLE FOR GOI TO ACQUIRE SUCH VEHICLES FROM EDA AND RECONDITION THEM AT BANDUNG. NOTE THAT EDA VEHICLES NORMALLY INVOLVE ABOUT FIVE MONTHS LEAD TIME.

F. EARLY WARNING SYSTEM SEA DEFENSE - ASSUMING THE INADVISABILITY OF THE LITTON PROPOSAL AS REPORTED IN REF D, IT MIGHT BE EQUALLY INADVISABLE TO FINANCE A USG STUDY UNDER MAP SINCE IT WOULD INEVITABLY TEND TO COMMIT US TO FINANCE IMPLEMENTATION OF SYSTEM RECOMMENDED BY THE STUDY. AS REPORTED PARA 7 OF REF C, ADMIRAL ZUMWALT QUESTIONED WHETHER THE INDONESIANS HAD TAKEN INTO ACCOUNT THEIR ABILITY TO FUND THE LITTON PACKAGE. HE STATED BELIEF THAT INDONESIAN NAVY COULD DEVELOP A PLAN WITH SELF-HELP AS THE KEY. IT APPEARS THAT SOME SORT OF STUDY MAY BE BASIC TO THE ULTIMATE IDENTIFICATION OF PATROL CRAFT AND RELATED EARLY WARNING REQUIREMENTS. SUCH DETERMINATION COULD PROBABLY BE HELPFUL TO BOTH THE AUSTRALIANS AND OURSELVES WHILE PUTTING THE PROBLEM OF AN EARLY WARNING SYSTEM INTO PROPER PERSPECTIVE FOR THE INDONESIANS. THE NAVY IS PREPARED TO SEND AT NAVY EXPENSE A SMALL USN TECHNICAL

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ASSISTANCE TEAM HEADED BY AN EXPERIENCED FLAG OFFICER, AS PREVIOUSLY REQUESTED BY ADMIRAL SUDOMO, IN CARRYING OUT MODEST SURVEY IF YOU CONCUR AND GOI SO REQUESTS,

G. SMALL ARMS MANUFACTURING FACILITY - ACCORDING INFO WE RECEIVED FROM LOCKHEED REP PRILL, GOI HAS ALREADY DETERMINED THAT IT IS TECHNICALLY FEASIBLE TO ESTABLISH SMALL ARMS MANUFACTURING FACILITY IN INDONESIA AND IS ACTIVELY SEEKING CAPITAL TO FINANCE IT. IF THIS IS SO, THERE WOULD APPEAR TO BE LITTLE NEED FOR FURTHER STUDY WHICH WOULD AGAIN HAVE DISADVANTAGE OF COMMITTING US TO FINANCE PROJECT WHICH WE WOULD PREFER TO AVOID FOR REASONS CITED PARA C.

3. BELIEVE POSSIBILITIES DISCUSSED SUB-PARAS A, B, D AND E ABOVE OFFER SOME PROMISE OF POSITIVE ACTION. IN DISCUSSING MAP LEVELS WITH TOP GOI OFFICIALS, YOU MAY WISH TO CANDIDLY REVIEW THESE POSSIBILITIES AND ASSURE THEM THAT WE ARE EXPLORING WAYS TO STRETCH RESOURCES AVAILABLE TO US, PARTICULARLY THROUGH EDA. WE ARE AWARE OF THEIR NEEDS AND WE ARE KEEPING THEIR REQUESTS VERY MUCH IN MIND.

DEFENSE CONCURS IN THIS MESSAGE. ROGERS

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